



GRANTS DRAWDOWN PERFORMANCE AUDIT

APRIL 2014



CITY OF DURHAM
AUDIT SERVICES DEPARTMENT

*“Provides independent, objective
assurance and investigative services”*

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To: Audit Services Oversight Committee
From: Germaine Brewington, Director
Audit Services Department
Date: **April 28, 2014**
Re: Grants Drawdown Performance Audit (April, 2014)

The Department of Audit Services completed the report on the Grants Drawdown Performance Audit dated April, 2014. The purpose of the audit was to determine if the City of Durham is drawing down eligible federal and state funds in a timely manner.

This report presents the observations, results, and recommendations of the Grants Drawdown Performance Audit (April 2014). City management concurs with the recommendation made. Management's response to the recommendation is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Departments of Fire, Police, Public Works, Transportation and Finance in the completion of this audit.

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BACKGROUND INFORMATION

The City of Durham receives funding from various federal and state agencies for a variety of programs and projects. Generally, the City is required to expend funds first on eligible grant activities or anticipate expending the funds within three days before requesting a reimbursement from the federal grantor agency.

The audit covered federal and state fund drawdowns during the period July 1, 2012 through Jan 30, 2014.

The City received federal aid during this period from the following agencies:

- U. S. Department of Housing and Urban Development
- U. S. Department of Justice
- U. S. Department of Labor
- U. S. Department of Transportation
- U. S. Department of the Interior
- Department of Homeland Security
- U. S. Environmental Protection Agency
- U.S. Department of Health and Human Services
- U.S. Department of Energy

The Federal Program expenditures for fiscal year 2013 totaled approximately \$21.3 million.

The City also received financial assistance from the state during this period from the following agencies:

- Department of Transportation
- Department of Environment and Natural Resources
- Clean Water Management Trust Fund

The State Program expenditures for fiscal year 2013 totaled approximately \$9.5 million.

City Policy FP 103 “Administration of Grants” establishes a uniform method for the application, acceptance, budgeting, administration and management of grants. Grants are accepted

BACKGROUND INFORMATION

from the federal or state government, private sources, or other agencies. According to the policy, as it pertains to drawing down of grant funds, each department shall ensure that all requests for grant funds are promptly submitted to the Finance Department with appropriate documentation. All drawdowns of grant funding must conform to the funding source guidelines and City policy. Whenever possible, the City will request advances before the actual expenditure of grant funds. For awards conducted on a reimbursement basis, the department must drawdown expended funds on a quarterly basis, at a minimum; unless otherwise specified by the funding agency. These draws should be submitted to the funding agency no later than thirty days after the close of the quarter. If at month-end any award has unreimbursed expenditures in excess of \$20,000, the department must perform a draw of funds immediately.

Several City departments administer and oversee federal and state grant funds. We selected a sample of grants for the audit from the following departments:

- Police
- Public Works
- Transportation
- Fire

EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to determine if the City of Durham is drawing down eligible federal and state funds in a timely manner.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The purpose of the audit was to determine if the City of Durham is drawing down eligible federal and state funds in a timely manner. Grant drawdowns were examined at the following departments: Police, Fire, Transportation and Public Works. Drawdowns were not performed in accordance with Policy FP 103 at the Department of Transportation and Department of Public Works based on the grants examined.

OBJECTIVES, SCOPE AND METHODOLOGY

Objective

The objectives of the audit were to:

- Ensure that federal and state funds are drawn down timely in accordance with Policy FP 103 and the individual grant agreements; and
- Determine if adequate internal controls exist to ensure drawdowns of federal and state funds are done in accordance with Policy FP 103.

Scope

The scope of the audit included examining all current practices as they relate to grant drawdowns at the selected departments.

Methodology

Audit Services Department staff performed the following procedures to accomplish the objectives of the audit:

1. Interviewed: a) personnel within each department receiving federal/state funds; and b) Finance Department personnel responsible for requesting and approving the drawdowns;
2. Examined grant agreements;
3. Examined general ledger postings;
4. Examined reimbursement requests;
5. Randomly selected several grants and verified:
 - Compliance with the terms of the grant agreement and FP 103 regarding the timely request for drawdowns;
 - That reimbursement requests were approved by the Department of Finance staff and that proper supporting documents were provided;

OBJECTIVES, SCOPE AND METHODOLOGY

- The amount requested equaled the expenses incurred as reported in the City's general ledger; and
- The amount received agreed with the drawdown request and was recorded in the general ledger.

During the audit, staff also maintained awareness to the potential existence of fraud.

AUDIT RESULTS

Audit staff randomly selected grants from some departments receiving federal and state funds. For each of the grants selected audit staff tested for the following attributes:

1. Verified compliance with the terms of the grant agreement and FP 103 regarding the timely request for a drawdown;
2. Verified that the reimbursement request was approved by the Department of Finance staff and proper supporting documents were provided;
3. Verified that the amount requested equaled the expenses incurred as reported in the City's general ledger; and
4. Verified that the amount received per the general ledger matched the drawdown request.

Following is a summary of the grants tested by department:

Department	Number of Grants Tested	Exceptions Noted			
		1	2	3	4
Police	5	None	None	None	None
Public Works	1	3 out of 4 requests tested	None	None	None
Fire	1	None	None	None	None
Transportation	9	11 out of 15 requests tested	4 out of 15 requests tested	None	None

AUDIT RESULTS

The Department of Transportation does not drawdown grant funds on a timely basis in accordance with City policy FP 103.

Audit staff examined drawdowns for 9 grants. A total of 15 requests for drawdowns were verified for the attributes stated on page 10. For 11 out of the 15 reimbursements examined, drawdowns were not requested in a timely manner according to Policy FP 103. Per Policy FP 103, the Department must perform a drawdown of funds expended, on a quarterly basis at a minimum. Four of the 11 exceptions pertained to three Section 5307 grants for which timely drawdowns were not performed due to situations beyond the control of the Department of Transportation. In these instances timely drawdowns were not possible as the federal agency had not made the funding available for drawdown. According to management, in previous years, the FTA had not apportioned grant amounts until several months after the fiscal year had begun; and the City could not apply for the funds until the apportionment had been provided. When the apportionment is provided, the application process can begin; and it usually takes 2 to 3 months before the grant is awarded. The Department cannot draw down funds for Section 5307 grants until funds are awarded to the City and executed. However, Audit Services staff found that drawdowns were not requested timely even after notification was received by Transportation Department staff, of availability of grant funds.

In addition, for seven of the 11 exceptions noted, grant funds were available but drawdowns were not executed in accordance with policy. The lack of timely drawdown of funds negatively impacts the general fund cash flow. Documentation to show approval by the Finance Director of the drawdown as required by the Department of Transportation's "ECHO Drawdown and Federal Financial Reporting Procedures" also did not exist in three of the 15 drawdown requests verified. The documentation maintained to support the grant drawdown requests was not maintained adequately.

AUDIT RESULTS

The Department of Public Works did not draw down grant funds in accordance with City Policy FP 103; however the Department of Finance staff approved the deviation from policy.

According to Policy FP 103, the department must perform drawdown of funds expended on a quarterly basis, at a minimum. If at month-end any award has unreimbursed expenditures in excess of \$20,000, the department must perform a draw immediately. The Department of Public Works was drawing down grant funds on a quarterly basis even though the expenditures at month-end were greater than \$20,000. The Department of Public Works has discussed the deviation from requirements of Policy FP 103 with the Department of Finance staff. The Department of Finance staff is in agreement with the frequency of drawdown.

Conclusion

The purpose of the audit was to determine if the City of Durham is drawing down eligible federal and state funds in a timely manner. Grant drawdowns were examined at the following departments: Police, Fire, Transportation and Public Works. Drawdowns were not performed in accordance with Policy FP 103 at the Department of Transportation.

RECOMMENDATIONS

Recommendation 1

The Department of Transportation should implement a system which will allow them to file reimbursement requests in a timely manner. Documentation to support the drawdown request should also be maintained adequately in accordance with their internal procedures “ECHO Drawdown and Federal Financial Reporting Procedure”.

MANAGEMENT'S RESPONSE



**CITY OF
DURHAM**

Memo to: Germaine F. Brewington, Director of Audit Services
From: Mark Ahrendsen, Director of Transportation
Date: April 21, 2014
Subject: Management's Response
Grants Drawdown Performance Audit (April 2014)

The following is the management's response to the Grants Drawdown Performance Audit dated April, 2014.

Recommendation 1:

The Department of Transportation should implement a system which will allow them to file reimbursement requests in a timely manner. Documentation to support the draw down request should also be maintained adequately in accordance with their internal procedures "ECHO Drawdown and Federal Financial Reporting Procedure".

Management's Response

We concur. Management is in agreement with the recommendation. The Department Director will provide written procedures to the Audit Director that will help ensure that reimbursement requests are filed in a timely manner and that documentation to support drawdown requests is also maintained adequately. Implementation Date: May, 2014.

The Department also offers the following comments regarding the audit results:

1. NCDOT and FTA grant agreements call for quarterly drawdowns/requests for reimbursement.

MANAGEMENT'S RESPONSE



2. As noted in the Audit Results, drawdowns cannot be made before grant agreements are executed. In many cases expenses may be incurred for one, two or more quarters before the grant agreement is executed.
3. The time period during which quarterly drawdowns/request for reimbursement should be measured from the end of the quarter, not the date of the first incurred expense, to the date of the drawdown.
4. The 30 day time period following the end of the quarter is really the minimum time period necessary to complete a drawdown. Several factors can affect the ability to complete the drawdown within this 30 day period. First, staff must review the quarterly expenses and prepare the drawdown/request for reimbursement. The Finance Department must then review and approve the drawdown/request for reimbursement. Then staff needs to complete the ECHO drawdown. Vacation or illness of Transportation Department staff or Finance Department staff can affect the completion time of the above tasks. It is also not uncommon for the ECHO system to be down for 2 to 3 days.

Finally, the Transportation Department has two positions that are responsible for preparing FTA and NCDOT grant reimbursement requests. One of these positions was vacant from September 14, 2013 to January 31, 2014. The other position has been vacant since February 12, 2014.